

COMMONWEALTH OF AUSTRALIA

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|------------------------------------|------------------------|------------------|--------------------|--|--|--|--|
| | Family Name | | | | | | |
| | Given Names | | | | | | |
| | Student Number | | | | | | |
| | Teaching Period | Semester 1, 2016 | | | | | |
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| FINAL EXAMINATION | | DURATION | | | | | |
| ECO504 – Business Economics | | | | | | | |
| | | Reading Time: | 10 minutes | | | | |
| | | Writing Time: | 180 minutes | | | | |
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INSTRUCTIONS TO CANDIDATES

The examination has **three** sections

| | |
|--|---|
| Section A: Suggested Time: 60 mins | Multiple Choice Questions: Answer ALL 40 questions. Marks as indicated on paper |
| Section B: Suggested Time: 80 mins | Short Answer Questions: Answer ANY 6 questions out of 7 questions. Marks as indicated on paper. |
| Section C: Suggested Time: 40 mins | Short Essay Questions: Answer ALL 2 questions. Marks as indicated on paper. |

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is a RESTRICTED OPEN BOOK examination

Any non-programmable calculator is permitted

No handwritten notes are permitted

Any hard copy, unannotated English dictionary is permitted

| ADDITIONAL AUTHORISED MATERIALS | EXAMINATION MATERIALS TO BE SUPPLIED |
|---|---|
| No additional printed material is permitted | 1 x 16 Page Book 1 x Scrap Paper |

Section A

Multiple Choice Questions

Total no. of marks for this section: 40

Answer **all** questions

This section should be answered in the Answer Booklet provided (16 page booklet). Each question is worth one mark. Suggested time allocation: 60 mins.

Section B

Short Answer Questions

Total no. of marks for this section: 30

Answer **any six** questions out of seven questions

This section should be answered in the Answer Booklet provided. Each question is worth **five** marks. Suggested time allocation for Section B: 80 minutes.

Question 1

Stan buys a 1966 Mustang with the intention of repairing, restoring and selling it. He anticipates that it will cost him \$10 000 to purchase, repair and restore the car, and that he can sell the finished car for \$13 000. When he has spent a total of \$10 000 on the project, he discovers that he needs to replace the engine. It will cost Stan \$4000 to replace the engine. If he replaces the engine he can sell the car for \$13 000. He can sell the car without the new engine for \$9000. What should he do?

(5 marks)

Question 2

All other things being equal, explain the effect of each of the following situations on demand and/or supply of corn. Explain also what will be the effect on equilibrium price and quantity. Provide clearly labelled diagrams.

- a. corn is now considered by doctors to be the most healthy vegetable
- b. there is a decline in the amount of land used to grow corn
- c. producers expect the price of corn to fall in the future
- d. the price of peas, a substitute for corn, goes up
- e. corn is a normal good and incomes fall

(5 marks)

Question 3

Using demand and supply diagram, suggest policies that can reduce road congestion in Sydney (hint: is congestion associated with negative externality?).

(5 marks)

Question 4

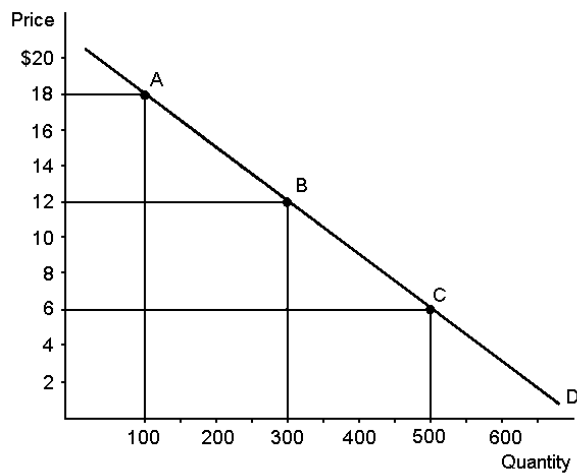
How do the following events impact aggregate demand, aggregate supply and long run aggregate supply?

- a. The government refurbishes school buildings.
- b. OPEC decreases oil prices.
- c. The government decreases unemployment benefits.
- d. RBA increases the money supply.
- e. Increases harvest in wheat growing areas in several states

(5 marks)

Question 5

Using the midpoint method, compute the elasticity of demand between points A and B. Is this portion of the curve elastic or inelastic? Interpret your answer with regard to price and quantity demanded. Now compute the elasticity of demand between points B and C. Is this portion of the curve elastic or inelastic?



(5 marks)

Question 6

Suppose the Chinese government increases government expenditure to tackle recessionary pressures in the economy. Using the model of aggregate demand and aggregate supply, identify the curves that are affected, and which way these curves would shift. Clearly explain the new equilibrium.

(5 marks)

Question 7

Complete the following table.

| Q | P | TR | TC | MR | MC | TFC | TVC | AFC | AVC | ATC | AC |
|---|----|----|-----|----|----|-----|-----|-----|-----|-----|----|
| 0 | 20 | | 18 | | | | | | | | |
| 1 | 20 | | 25 | | | | | | | | |
| 2 | 20 | | 30 | | | | | | | | |
| 3 | 20 | | 36 | | | | | | | | |
| 4 | 20 | | 44 | | | | | | | | |
| 5 | 20 | | 54 | | | | | | | | |
| 6 | 20 | | 66 | | | | | | | | |
| 7 | 20 | | 80 | | | | | | | | |
| 8 | 20 | | 95 | | | | | | | | |
| 9 | 20 | | 115 | | | | | | | | |

(5 marks)

Section C
Short Essay Questions

Total No of Marks for this section: 30 marks

This section should be answered in the Answer Booklet provided. Each question is worth 15 marks. Suggested time allocation for Section C: 40 minutes

Question 1

Explain how unemployment is calculated and describe different types of unemployment. Why is there always going to be some amount of unemployment in the economy? What problems arise in interpreting the unemployment data?

(15 marks)

Question 2

Explain and illustrate with diagrams the differences between diminishing marginal product and diseconomies of scale.

(15 marks)